

GENERAL BUDGET GUIDELINES
FOR OPERATING AND
CAPITAL IMPROVEMENT PROJECTS
FB 2011-13 AND THE PLANNING PERIOD

Budget submissions shall include all costs of Executive Branch agencies and programs, including operations, current lease payments, and capital improvements by the appropriate means of financing (MOF).

All requests for Operating and Capital Improvement Project (CIP) budget authorizations shall conform to the guidelines contained herein. For additional information, departments should also refer to:

- Attachment 3 (*Additional Operating Budget Detail Guidelines*)
- Attachment 7 (*Instructions for Completing Program and Financial Plans and Program Budget Request Forms*).

All appropriate forms will be e-mailed to your administrative services/budget officers. In addition, these forms will be available on the Department of Budget and Finance (B&F) website.

A. OPERATING BUDGET

Preparation of the Executive Budget Request for FB 2011-13 includes the following stages.

First Stage: Review of the Operating Budget Base and BJ Details

To facilitate budget accountability and transparency, all departments and agencies must conduct a thorough review of their budget base and BJ details to ensure that their budgets reflect true expenditure requirements, to the closest extent possible. Excel files of each department's current budget will be emailed to appropriate budget personnel for review and update.

Subject to the budgetary constraints contained in this attachment, departments should update their Excel files and submit corresponding trade-off and transfer base adjustment or other budget adjustment requests to:

- Eliminate large BJ1A (Other Personal Services) or BJ2 (Other Current Expenses) line item adjustments
- Eliminate or fund currently unfunded positions
- Add currently unbudgeted positions

- Move funding to cost elements or programs where it has historically been required as reflected in prior year Requests for Allotment (Form A-19) and Requests for Transfer of Funds (Form A-21).

Departments with their own budget systems should perform a similar review using the appropriate files. The updated Excel/electronic files should be emailed to your B&F analyst and Ms. Sharon Kotaka (sharon.y.kotaka@hawaii.gov) in coordination with the submittal of your department's budget request.

Second Stage: Operating Budget Requests

The following instructions apply to all MOF, except as otherwise noted.

1. **Departmental Budget Ceilings.** Budget ceilings from all MOF have been established for each department in Attachment 1. These numbers represent the maximum funding that departments may request in each fiscal year for their operations for the initial budget review by the current administration.
 - a. The ceilings are based on each department's FY 11 appropriations, excluding non-recurring expenses and federal stimulus funds (MOF "V").
 - b. Within the respective departmental budget ceilings, allowances have been made for collective bargaining adjustments, the restoration of the furlough savings, as calculated by B&F, and State Fiscal Stabilization Funds (SFSF) amounts pursuant to Section 163 of Act 162, SLH 2009, as amended by Act 180, SLH 2010.
2. **Trade-Off and Transfer**

Within their respective ceilings, departments should submit trade-off and transfer base adjustment requests necessary to more accurately reflect program expenditures pursuant to review of their operating base and BJ details as their highest priority requests.

Departments are also encouraged to use their resources wisely and creatively and to accommodate the changing conditions and priorities of State programs and services, to accomplish the overall fiscal policy objectives of the Administration. These objectives include:

- Improving efficiency in State operations
- Increasing effectiveness of State programs and services
- Demonstrating the results/benefits to the public
- Maintaining an appropriate balance between available resources and program needs

Accordingly, trade-offs and transfers of positions and funding should be explored and requested as appropriate. Changes in the MOF may be proposed and, in light of position ceiling limits, variances to existing authorized positions may be proposed during budget formulation to accommodate changes in program needs. All such requests for change should be supported with justification.

All trade-offs and transfers shall be prioritized; corresponding requests shall share the same priority number. Use Form B (*Department Summary of Operating Budget Adjustment Requests*) to list all trade-off/transfer proposals and Form A (*Operating Budget Adjustment Request*) to request and justify a trade-off/transfer proposal. Form A-Attachment may be used to list multiple trade-off/transfer proposals.

In light of limited availability of general funds, departments should maximize efforts to use non-general funds to support their programs where appropriate or authorized.

3. Operating Budget Requests

Total budget requests for consideration by the current administration for each department for each fiscal year shall not exceed the departmental budget ceilings as provided in Attachment 1. Limited exception is allowed for programs as indicated below. Each budget request shall have a unique priority number and shall be listed on Form B, with details and justification provided on a corresponding Form A.

Requests submitted for consideration by the next administration should be listed on Form B-1 (*Departmental Summary of Other Budget Requests*) in priority order which is specific to Form B-1. A corresponding Form A should be submitted for each request. Departments may also submit an optional narrative (using own format), to supplement Form B-1, to provide a brief summary of their department's operations and how their proposed requests will help them meet their program goals in FB 2011-13.

The Operating Budget shall conform to the following guidelines:

- a. Use Form C (*Summary of Current Operating Budget*) to provide a breakdown of the department's budget base in FY 12 and FY 13 by Program ID and Organization Code for every MOF.
- b. Funding of Positions
 - All positions must be funded for the full year. This requirement also applies to vacant positions that departments choose to retain in their programs. Positions that are not funded should be eliminated.
 - As a cautionary note, departments should be aware that recent legislatures have taken a strict view on unauthorized positions. For the current

biennium, Section 134 of Act 162, SLH 2009, as amended by Act 180, SLH 2010, prohibits expenditures to fill any position not authorized by the legislature, except for a limited number of cases. Therefore, departments should ensure that all necessary workforce requirements are reflected in their budgets.

For the purpose of complying with Section 134, "authorized by the legislature" are positions reflected in the budget tables as:

- i. Permanent or temporary positions
 - ii. Lump sum funding authorizations for hourly or casual employees
 - iii. Lump sum CIP funding for project funded positions
- c. Requests for the following non-discretionary expenses may be submitted by the appropriate departments:
- c.1 Debt Service

BUF 721, BUF 725, BUF 728: Principal and interest on general obligation (G.O.) bonds
 - c.2 Employee Fringe Benefits

BUF 741, BUF 745, BUF 748: Pension Accumulation, Social Security and Medicare

BUF 761, BUF 765, BUF 768: EUTF premiums for health insurance
 - c.3 Medicaid/QUEST

HMS 401: Health care payments
- d. Requests for additional general funds above the budget ceilings may be proposed for consideration by the next administration. General fund requests must be for additional resources for current programs or to address critical needs for public health and safety, or court mandates.
- e. Requests for Special and Revolving Funds. Programs supported by special and revolving funds should adhere to the same cautious outlook and budgetary constraints contained in this attachment. These programs may request funding above their ceilings for debt service costs and employee fringe benefits.

Requests for additional resources for current programs, to address critical needs regarding public health and safety or court mandates, or to propose a change in

the MOF to replace current funding from general funds, may be submitted for consideration by the next administration.

Sufficient revenues must be available to accommodate all such requests.

- f. Requests for Appropriated Trust and Appropriated Federal Funds. Trust and federal fund ceilings may be increased to cover debt service costs, employee fringe benefits, and other requirements if:
- Such increases require no general fund support;
 - Sufficient revenues will be available to accommodate such budgeted increases; and
 - The increase will not result in additional direct or indirect general, special, or revolving fund support to the department.
- g. Requests for Appropriated Federal Stimulus Funds. FY 11 federal stimulus fund appropriations were not included in department ceilings. Requests for necessary ceiling increases may be submitted.
- h. Furlough Savings, SFSF and Collective Bargaining. Restoration of furlough savings and SFSF amounts and collective bargaining adjustments are included in the budget ceilings for FY 12 and FY 13. No other costs shall be included.

Use Form C to allocate furlough savings, SFSF and collective bargaining amounts among program IDs and organization codes to establish appropriate base amounts.

- i. Changes in MOF. A change in MOF sources may be proposed if:
- It does not result in requirements for additional direct or indirect general fund support to the department;
 - It is consistent with the statutory purpose of the funds involved; and
 - Projected levels of fund receipts/revenues will be available under current statutes to accommodate the change in MOF.

Changes shall be identified and justified on Form A, by org code/program ID.

- j. Financing Agreements

Chapters 37 and 37D, HRS, provide separate requirements for the budgeting and management of "*financing agreements*" and related transactions.

A “financing agreement” includes any lease purchase agreement, installment sale agreement, loan agreement, line of credit, or other agreement to finance the improvement, use, or acquisition of real or personal property that is or will be owned or operated by the State or any agency or to refinance any such previously executed financing agreement including certificates of participation relating thereto.

“Financing agreement” applies but is not limited to agreements involving tangible personal property, software (including software, training, and maintenance contracts related to the operation of computer equipment), fixtures, and property rights. (See E.M. No. 96-17, dated November 15, 1996, relating to financing agreements.)

All funding for such financing transactions and liabilities, whether current or proposed, must be budgeted as a separate cost element in each fiscal year.

“Operating” cost categories must include a separate cost element for “current lease payments,” in addition to the existing “personal services,” “other current expenses,” “equipment,” and “motor vehicles.” Note: Any lease purchase agreement, master lease agreement, installment sale agreement, or other similar financing agreement used to fund property rights, equipment, or motor vehicles, should be included on a separate Table “BK” for “current lease payments.”

- k. Additional Guidelines. Additional information and guidelines are provided in Attachment 3 (Additional Operating Budget Detail Guidelines for FB 2011-13 and the Planning Period), which should be referenced for more specific details on the Operating Budget.
4. **Submission Requirements.** The following forms, as applicable, must be completed as part of the department’s operating budget submission:
- a. Use Form C (Summary of Current Operating Budget) to provide a breakdown of the department’s current services operating budget ceiling for FY 12 and FY 13 by Program ID and Organization Code.
 - b. Use Form A (Operating Budget Adjustment Request) to:
 - Request adjustments for FB 2011-13.
 - Identify details of plus or minus funding in requests for trade-offs/transfers. Use Form A-Attachment to list multiple trade-offs/transfers.

Budget information on Form A should be as detailed as possible to facilitate the update of BJ tables.

- c. Use Form B (*Department Summary of Operating Budget Adjustment Requests*) to list all budget adjustment requests of the department, by Program ID and Organization Code. List the requests by order of department priorities. (See "Instructions for Form A" regarding department priority.) Identify the category of each request as appropriate (e.g., additional resources for current programs, trade-off/transfer-base adjustment, fixed cost/entitlement, etc.).

Similarly, use Form B-1 (*Departmental Summary of Other Budget Requests*) to list all requests for consideration by the new administration. An optional narrative, in your own format, may be submitted to support your Form B-1 requests.

- d. Use Form CB-1 (*Collective Bargaining Cost Data*) to provide data on non-salary cost items for CB purposes. Note: This form was sent to the departments earlier and should have been returned by August 9, 2010.
- e. An updated six-year financial plan should be submitted for each special or revolving fund. The updated numbers should be consistent with those provided in the budget requests (operating and CIP) and in the Quarterly Update of Revenue Estimates. Discussion of assumptions used for revenue estimates should be provided.
- f. Updated BJ Details in Excel or other electronic format shall be submitted by each department with their budget request. The Excel files will be emailed to each department for updating.

Prepare BJ details according to the following instructions which apply to all MOF:

- FY 10 – reflect actual expenditures.
- FY 11 – reflect estimated expenditures.
- FYs 12 and 13 – reflect the departmental biennium budget request, including 1) all trade-off and transfer requests pursuant to review of budget base and BJ details, 2) all other trade-off and transfer requests, and 3) other allowed requests for consideration by the current administration. FY 12 and FY 13 totals must match Form B, "Grand Total." Do not include budget requests listed on Form B-1.

All updated Excel files will be uploaded to eBUDDI and BJ summary tables will be automatically generated based on the BJ details (University of Hawaii (UH) should submit BJ summary file). The following applies to the out-years of the BJ summaries:

- FYs 14 through 17 – Position counts and all operating costs shall be kept constant (i.e., same as FY 13) throughout the planning period.

Exceptions: Debt service, Employees' Retirement System, EUTF employer contributions, and Department of Human Services' health care payments should reflect projected requirements. CB costs for Unit 7 (UH Professional Assembly) should also be reflected as a special funded requirement.

Departments using eBUDDI will be notified when to update their BJ Summary tables and BJ details to reflect the Governor's budget, if necessary. Please inform your B&F analyst and Ms. Kotaka via e-mail at Sharon.Y.Kotaka@hawaii.gov when your BJ Summary tables and BJ details have been updated.

For departments with automated budget systems, please submit the Excel file/electronic file of the BJ summary tables (if available) and BJ details. Please transmit the Excel or electronic files to Ms. Kotaka.

g. Budget Narratives (Program Plan Narratives)

- Prepare a budget narrative, not to exceed two pages, for each program ID to discuss the final Executive Budget requests.
- Do not prepare separate narratives for the organization codes within the program ID.
- See Attachment 7 for more detailed instructions on the Budget Narrative.

Please email the electronic file(s) of your budget narrative to your B&F analyst.

- h. Performance Measures – please use the eANALYT system to update the data by fiscal year to reflect the level of program goals that will be achieved by the implementation of the approved Executive Budget. See Attachment 7 for additional information on Performance Measures.

B. CAPITAL IMPROVEMENT BUDGET

1. The CIP Plan for FB 2011-13 shall focus on the following priorities:

- a. Major repair and maintenance of existing facilities
- b. Improvements for energy efficiency

Requests for Major Repair and Maintenance (Major R&M) may be submitted to address the backlog of projects. Major R&M includes projects that extend the useful life of a facility or provide for greater functional/operational efficiency through a significant improvement or upgrade. The life expectancy of the project should be generally over 15 years. Examples include: reroofing, air conditioning equipment, refurbishing of building space or building infrastructure, major improvements to sports facilities, and resurfacing.

2. G.O. bond, special fund, federal fund, revolving fund, or revenue bond requests for the completion of ongoing projects and for projects to address health and safety concerns may be submitted for consideration by the next administration.

There shall be no general funded CIP requests.

3. New funding for CIP is very limited due to the substantial increase in capital improvement appropriations in recent years. Departments are encouraged to identify and lapse projects with lower priority to ensure the availability of funds for other statewide capital needs. CIP trade-offs may also be proposed.
4. All requests will be reviewed and scrutinized for their impact on debt service and operating costs.

Additional operating costs incurred as a result of CIP requests shall be accommodated within the appropriate department's operating ceilings, unless requested for consideration by the next administration.

5. Projects funded by "financing agreements" instead of long-term debt proceeds:
 - Whenever the financing transaction used in any project (or cost element therein) does not entail funding by G.O. or other long-term debt, but entails a "financing agreement" as defined by Chapter 37D, HRS, the portion thus financed shall be submitted as a separate and distinct project. The title of such a project shall refer to the financing mechanism as well as the project (e.g., "Lease-purchase of Land for Kamehameha Highway Extension," to be funded by special funds). See also this attachment, Item A.3.j, and E.M. No. 96-17, dated November 15, 1996, for further clarification of "financing agreements."
 - When financing agreements are being considered, departments must inform B&F of such plans and obtain an initial consent regarding the appropriateness of such agreements.
6. Departments requesting CIP financed by special funds, revolving funds, or revenue bonds must ensure that:
 - The public undertaking so funded will be self-supporting;

- The responsible program will be able to impose appropriate rates and charges to accommodate the cost of the undertaking, including payment of principal and interest; and
- A special fund has been authorized to provide dedicated funds for such purposes.

Departments should consider the impact such authorizations would have on their departmental special fund operating budget requirements and ceilings.

7. As appropriate, departments must ascertain the relationship between current and future facility costs (e.g., renovation, CIP) associated with operating requests and vice-versa.

Departments are reminded to make the appropriate funding adjustments for operating costs associated with the lapsing of currently-authorized CIP projects in this budget request.

8. Agencies should consider the feasibility of participating in the development of a joint use facility before requesting CIP funding for single agency facilities.
9. User and expending agencies of CIP which are funded by G.O./G.O.R. bonds are reminded of compliance requirements of the Tax Reform Act of 1986, including amendments thereto. Form PAB (*Questionnaire – G.O. Bond Fund Appropriations*) must be completed for every project to be funded with G.O. and G.O.R. bond funds. If assistance in completing this form is required, the Financial Administration Division of B&F should be contacted.

10. **CIP Submission Requirements.** CIP budget requests and/or adjustments shall be submitted according to the following procedures:

Tables P and Q (*Capital Project Details*) – All CIP projects which were authorized by Act 162, SLH 2009, as amended by Act 180, SLH 2010, have been inputted in eCIP.

- a. Requests for Major R&M and Energy Efficiency projects and trade-offs for FB 2011-13 shall be inputted in eCIP and submitted on completed Tables P, Q, and R (*Capital Project Information and Justification Sheet*).

Requests for consideration by the next administration should not be inputted into eCIP until further notice. As such, no Tables P, Q and R will be required with your initial budget submittal.

- b. For capital authorizations of new projects with federal aid financing that are expected to lapse on June 30, 2014, the lapsing of all MOF (except for general

funds and School Education Facilities Improvement Special Funds), may be prevented by including the following statement within each applicable project description if deemed appropriate pursuant to federal grant requirements:

“This project is deemed necessary to qualify for federal aid financing and/or reimbursement.”

In addition, documentation of the source of federal funds must be included in Table R. Information shall include the source of grant, type of grant, federal contract agency, amount being sought, amount received in past, total funding cap on specific grant, and anticipated date for receipt of funds.

- c. For compliance with the Federal Tax Reform Act of 1986 and amendments thereto, Form PAB must be completed and submitted for every request funded by G.O. or G.O.R. bonds.
- d. Each project description must begin by stating the cost elements requiring appropriations in the budget biennium.

Table R is used to justify requests for new projects or additional funding of existing authorized projects.

Form S (*Department Summary of Proposed CIP Lapses and New CIP Requests*) is used to summarize projected CIP requests and to identify appropriations for trade-off or lapsing. Requests on Form S shall be prioritized with (1) as “highest priority,” and so on. Projects proposed for lapsing shall be prioritized with (1) as “first to be lapsed,” and so on.

Form S-1 (*Department Summary of New CIP Requests – Others*) is used in the same manner as Form S, but for new requests, which are proposed to the new administration. Departments may also submit an optional narrative (using own format), to supplement Form S-1, to provide a brief summary of their department’s operations and how their proposed requests will help them meet their program goals in FB 2011-13.

C. OTHER REQUIREMENTS

- 1. Where program or budget requests entail coordination between programs or departments, participating agencies shall ensure that clear delineations of responsibility have been mutually established and are legally permissible; and that appropriate implementation and/or funding mechanisms are available, including the necessary budget language.
- 2. Special and other non-general funded departments and programs must conform to these budget submission requirements. Further, such departments and programs should be reminded of Section 37-52, HRS, which provides that “. . . departments

and establishments shall not be authorized to make expenditures out of any special fund in excess of the monies available in the special fund." Budget requests, therefore, should not exceed anticipated total resources available in the (non-general) fund for the specified fiscal year. Any changes should be reported to B&F. A financial plan should accompany the budget request of each special or revolving fund to verify the availability of adequate resources. Numbers should be consistent with those provided in the budget requests (operating and CIP) and in the Quarterly Update of Revenue Estimates.

3. State agencies contemplating the creation of new programs should be aware of Section 37-68(1), HRS, which requires departments to justify proposed requests for new programs by first demonstrating that such programs: a) are appropriate functions of State government, and b) can be implemented by government as cost-effectively as the private sector.
4. Departments and agencies are reminded that administration decisions to recommend approval of program and capital improvement requests shall be determined by the conformance of such requests with the overall theme, goals, objective, policies, and priority guidelines contained in Chapters 226 and 225M, HRS, relating to State and Functional Plans.
5. Before submitting operating and capital budget requests for energy funding, departments and agencies shall consult with the energy coordinator at the Department of Business, Economic Development and Tourism for specific energy-related standards, guidelines, and goals pursuant to:
 - Administrative Directive No. 06-01 (Energy & Resource Efficiency and Renewable Energy & Resource Development).
 - State energy policies mandated by Act 96, SLH 2006, and Acts 155 and 156, SLH 2009.

All energy-related budget requests must be consistent with such standards, guidelines, and goals.